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RR RUEHBI RUEHLMC
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FM AMEMBASSY COLOMBO
TO RUEHC/SECSTATE WASHDC 6471
INFO RUCPDOG/USDOC WASHDC
RUEHNE/AMEMBASSY NEW DELHI 1202
RUEHKA/AMEMBASSY DHAKA 0290
RUEHIL/AMEMBASSY ISLAMABAD 7274
RUEHKT/AMEMBASSY KATHMANDU 5383
RUEHKP/AMCONSUL KARACHI 2217
RUEHCG/AMCONSUL CHENNAI 7867
RUEHBI/AMCONSUL MUMBAI 5522
RUEHGV/USMISSION GENEVA 2214
RUEATRS/DEPT OF TREASURY WASHDC
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION

UNCLAS COLOMBO 001002

SIPDIS

SENSITIVE

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STATE FOR SCA/INS AND EEB/IFD/ODF
STATE PASS TO USTR
COMMERCE FOR EROL YESIN AND JONATHAN STONE
MCC FOR D NASSIRY AND E BURKE

E.O 12958: N/A

TAGS: [EINV](#) [ENRG](#) [PREL](#) [CE](#)

SUBJECT: SRI LANKA: CHARGE PRESSES MINISTER OF POWER AND ENERGY ON
MISSING LETTERS OF CREDIT FOR AES POWER PLANT

REF: A. COLOMBO 622 B. COLOMBO 848

¶1. (SBU) Summary: Charge met Power and Energy Minister Seneviratne to continue pressing for the Ceylon Electricity Board to deliver contractually-required letters of credit to U.S. independent power producer AES. The minister said that he hoped to resolve the issue by getting the cabinet to officially raise the Electricity Board's borrowing limits. He expected a cabinet sub-committee to consider the matter soon and explained that higher borrowing limits would enable the Electricity Board's bank, the state-owned People's Bank, to issue the letters of credit. We think this approach could work, but will require continued pressure from us, which we intend to keep up. End summary.

¶2. (SBU) Charge d'Affaires called on Power and Energy Minister Seneviratne July 11 to continue Embassy advocacy on behalf of U.S. independent power producer AES Kelanitissa (Private) Limited (ref A). AES has been operating a \$104 million 163 megawatt power plant in Sri Lanka since 2003, but has never received contractually-required letters of credit from the state-owned Ceylon Electricity Board. Without the letters of credit, AES's lenders have been unwilling to allow investors to take profits from the project.

¶3. (SBU) The Charge told Minister Seneviratne that, as indicated by the Ambassador's April meeting with him and subsequent letter and phone calls, the Embassy believed it was important for the government of Sri Lanka to resolve the letters of credit issue. The Charge explained that the issue had become an irritant in the bilateral relationship, as indicated by the fact that a senior U.S. Commerce Department official had raised it with Sri Lankan Trade Minister Peiris recently in Washington. The Charge also emphasized that instances such as this of failure to honor contracts had made it increasingly hard for the Embassy to encourage investment in Sri Lanka.

¶4. (SBU) Minister Seneviratne acknowledged that the Ceylon Electricity Board was contractually obligated to post the letters of credit. He said he hoped to resolve the issue by increasing the Electricity Board's government-set borrowing limit. This would enable the People's Bank to provide the letters of credit as the

covered amount would remain within the higher borrowing limit. The ministry had put the matter before a cabinet sub-committee chaired by the Prime Minister. This committee had the authority to raise the borrowing limit and was likely to agree to do so, the Minister thought. He expected the issue to be taken up the week of July 16. If approved, the People's Bank might take only an additional two weeks to issue the letters of credit. The Charge welcomed the prospect of a resolution, and told the minister that the Embassy would continue to pursue the matter until it was in fact resolved.

15. (SBU) Comment: If indeed the cabinet takes up the borrowing limit issue, it will represent the first actual effort, beyond talk, to do anything about AES's long overdue letters of credit. Even an approval of a higher borrowing limit, however, would not necessarily lead to the People's Bank quickly issuing the letters of credit. We expect to have to continue to push the government on this. Looking down the road, there also remains the outstanding payment of \$3 million that the Ceylon Electricity Board owes to AES, which we have described in our investment disputes report (ref B). AES prefers to put this issue aside for now, but we plan to resume efforts on this front once we resolve the letters of credit issue.

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